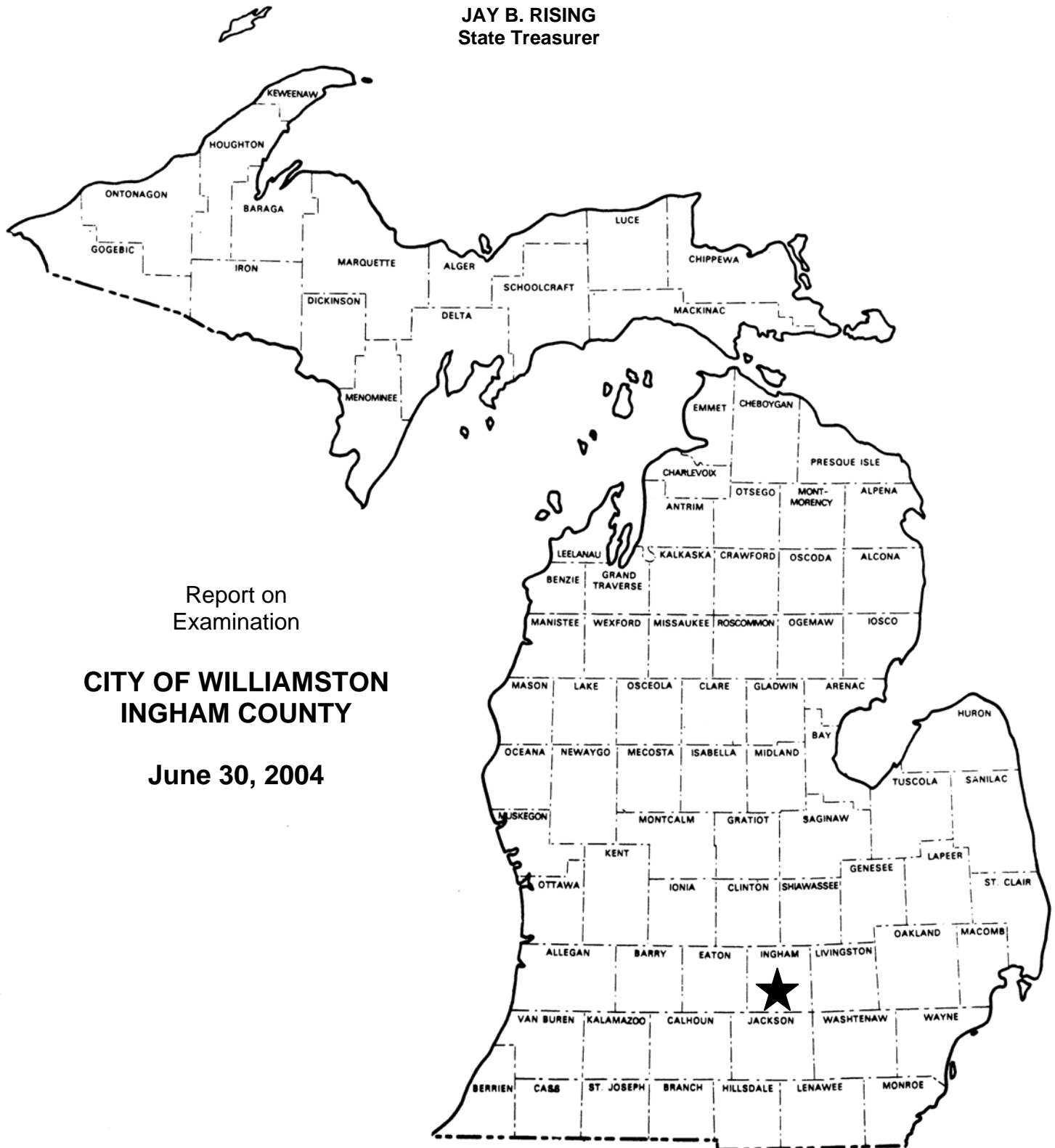


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination
CITY OF WILLIAMSTON
INGHAM COUNTY
June 30, 2004

Local Audit and Finance Division
Bureau of Local Government Services

CITY OF WILLIAMSTON

CITY COUNCIL

Kenneth V. Zichi
Mayor

Larry Wittrup
Mayor Pro-tem

James DeForest
George Monroe
Robert Hanna

Penny Davis
Scott Vanallsburg

Lisa Hitchcock
Manager

Alan Dolley
Treasurer

CITY POPULATION--2000
3,441

STATE EQUALIZED VALUATION--2003
\$110,441,160



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

October 7, 2004

Honorable Mayor and City Council
City of Williamston
161 East Grand River Avenue
Williamston, Michigan 48895

Independent Auditor's Report

Dear Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Williamston, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Williamston's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Williamston's management. Our responsibility is to express opinions on these financial statements based on our audit.

As described in Note O, the city adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of July 1, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the

aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Williamston, as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2004, on our consideration of the City of Williamston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparisons for the Major Fund as identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Williamston's basic financial statements. The combining non-major fund financial statements, Exhibit L and Exhibit M, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

CITY OF WILLIAMSTON

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The following is a discussion and analysis of the City of Williamston's financial performance and position, providing an overview of the activities for the fiscal year ended June 30, 2004. This analysis should be read in conjunction with the *Independent Auditors Report*, our letter of transmittal, and with the City of Williamston's financial statements, which follow this section. Fiscal year 2004 represents the first year the City has implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments-Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous fiscal year. Future reports will include financial comparisons to the prior year as required by GASB.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represent the most significant financial highlights for the year ended June 30, 2004:

- Total fund balances for the City's governmental funds increased approximately \$664,000 and represent planned and authorized increases by the City Council to initiate new programs and undertake capital projects and acquisitions. The City is preparing for street improvements and other infrastructure projects by accumulating the funds necessary to meet future financial obligations.
- Total long-term liability for governmental activity is \$2,652,820, an increase of \$98,385 from the previous year. This increase is the result of the purchase of equipment to assist the Department of Public Works in maintaining the City's storm and sanitary sewer systems.
- Tax revenues, the City of Williamston's largest single revenue source, totaled \$1.46 million in the General Fund for fiscal year 2004, representing an increase of 25 percent from the previous fiscal year. This increase primarily reflects the growing tax base of the community, as the City continues to realize considerable residential development and the uncapping of taxable values when property sells. Between 1994 and 2004, the City has experienced an average annual increase of 23 percent in taxable value, from \$42.7 million in 1994 to almost \$102 million in 2004. However, the taxable value of the City would have been more than \$124.25 million if the Michigan constitutional amendment commonly known as "Proposal A" had not been enacted in 1994, resulting in a loss of potential revenue of \$345,800 in the 2003/2004 fiscal year based upon the City tax levy of 15.5430 mills.

- State shared revenue, a major source of revenue for the City's General Fund, continued the downward trend of the past several years. The City received \$328,389 in the 2003/2004 fiscal year, a reduction of \$58,954, or more than 16 percent, from 2001/2002 funding levels. This revenue reduction has been masked by the increase in tax revenues resulting from a growing tax base. However, the serious impact of decreasing state shared revenues will become more apparent as tax base growth slows. The City's proactive response to the decline in state shared revenue is to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs, staffing levels, discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.

Using this Annual Report

The annual financial report of the City of Williamston consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis*; 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements); 4) *Required Supplementary Information* such as budget-to-actual comparisons for the General Fund and major Special Revenue Funds; and 5) *Other Supplementary Information* including combining financial statements for all non-major governmental and proprietary funds.

Government-wide Financial Statements (Reporting the City as a Whole)

The Statement of Net Assets and the Statement of Activities provide information about the City as a whole and present a longer-term view of the City's finances. Their purpose is to assist in answering the question, "Is the City of Williamston, in its entirety, better or worse off as a result of this fiscal year's activities?" These statements are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets presents all of the City of Williamston's assets and liabilities, recording the difference between the two as "net assets." Over time, increases or decreases in net assets measure whether the City of Williamston's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the City of Williamston's net assets changed during fiscal year 2004. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee personal leave.

Fund Financial Statements (Reporting the City's Major Funds)

The governmental funds financial statements are reported on a *modified accrual basis of accounting*. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources. The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending.

Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. Fund financial statements are utilized to track specific operations; these include the General, Water and Sewer Funds.

The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Comparison of Government-Wide and Fund Financial Statements

Both statements report governmental activities and business-type activities. Governmental activities include the General Fund, Special Revenue Funds and Debt Service Funds. Business-type activities include the Water and Sewer Funds.

Because of the different basis of accounting between the fund statements and the government-wide statements, reconciliations between the two statement types are also presented in this report. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however depreciation expense is reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

- Long-term liabilities, such as reserves for personal leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Bond proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, the government-wide financial statements include the net value of the City of Williamston's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.

Governmental Activities/Governmental Funds

Most of the City of Williamston's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City of Williamston's general government departments such as police, public works, recreation programs, and Major and Local street maintenance are reported under these activities. The most significant is the police department, which incurred expenses of approximately \$497,000 in 2004.

Business-Type Activities/Proprietary Funds

Business-type activities are those that are financed primarily by charges for services or user fees. The City's business-type activities consist of the Water and Sewer Funds; these types of operations are most similar to private businesses.

Discretely Presented Component Units/Fiduciary Funds

Discretely Presented Component Units are legally separate organizations for which the City of Williamston's City Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. Organizations included as component units: Downtown Development Authority (DDA), Economic Development Corporation (EDC), TIFA 2A and TIFA 2B. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

The City of Williamston as a Whole

The following table shows a condensed format of the net assets as of June 30, 2004. The Management's Discussion and Analysis will present a comparative Statement of Net Assets next year when we have two years of statements in the new GASB No. 34 format:

Table I--Net Assets as of June 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets	\$ 1,515,142	\$ 1,409,959	\$ 2,925,101
Noncurrent Assets	1,902,964	12,857,760	14,760,724
Total Assets	3,418,106	14,267,719	17,685,825
Liabilities			
Current Liabilities	63,342	63,838	127,180
Long-Term Liabilities	2,659,359	4,471,029	7,130,388
Total Liabilities	2,722,701	4,534,867	7,257,568
Net Assets			
Invested in Capital Assets			
Net of Related Debt	1,499,909	8,074,103	9,574,012
Restricted	502,861		502,861
Unrestricted	(1,307,365)	1,658,749	351,384
Total Net Assets	\$ 695,405	\$ 9,732,852	\$ 10,428,257

The City's combined net assets for both governmental and business-type activities total \$10.4 million for fiscal year 2004. Unrestricted net assets, the part of net assets that can be used to finance daily operations, for both governmental and business-type activities totaled approximately \$351,384.

City of Williamston, Michigan

**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2004**

The following table of condensed financial information was derived from the government-wide Statement of Activities and reflects how the City of Williamston's net assets changed during the fiscal year. The Management's Discussion and Analysis will present a comparative Statement of Net Assets next year when we have two years of statements in the new GASB No. 34 format:

	Governmental Activities	Business- Type Activities	Component Activities	Total
Net Assets--Beginning	<u>\$ (191,010)</u>	<u>\$ 9,251,007</u>	<u>\$ (100,315)</u>	<u>\$ 8,959,682</u>
Program Revenue				
Charges for Services	\$ 190,487	\$ 1,263,269	\$ 68,365	\$ 1,522,121
Operating Grants and Contributions	761		17,561	18,322
Capital Grants and Contributions	543,054	630,330	445,741	1,619,125
General Revenue				
Property Taxes	1,463,436		354,673	1,818,109
State-Shared Revenue	329,221			329,221
Unrestricted Investment Earnings	2,436	12,067		14,503
Special Item--Gain on Disposal of Capital Assets	69,327		14,943	84,270
Transfers	<u>236,070</u>	<u>(57,565)</u>	<u>(178,505)</u>	<u>-</u>
Total Revenues	<u>2,834,792</u>	<u>1,848,101</u>	<u>722,778</u>	<u>5,405,671</u>
Program Expenses				
General Government	680,547			680,547
Public Safety	504,202			504,202
Public Works	544,568			544,568
Recreation and Cultural	50,600			50,600
Community and Economic Development	91,685			91,685
Interest on Long-Term Debt	76,775			76,775
Water and Sewer		1,366,256		1,366,256
Downtown Development Authority			262,436	262,436
Economic Development Corporation			63,528	63,528
TIFA 2A			3,542	3,542
TIFA 2B			62,541	62,541
Total Expenses	<u>1,948,377</u>	<u>1,366,256</u>	<u>392,047</u>	<u>3,706,680</u>
Changes in Net Assets	<u>886,415</u>	<u>481,845</u>	<u>330,731</u>	<u>1,698,991</u>
Net Assets--End of Year	<u>\$ 695,405</u>	<u>\$ 9,732,852</u>	<u>\$ 230,416</u>	<u>\$ 10,658,673</u>

Budgetary Highlights

The City of Williamston's budget is a dynamic document. Although adopted in June (prior to the start of the fiscal year), the budget is frequently amended during the course of the fiscal year to reflect changing operational demands. The City's administrative staff and the City Council review updated budget statements on a monthly basis.

Increases in the General Fund balance were budgeted in anticipation of the Putnam Street Bridge project, which will be started in fiscal year 2005.

The Sewer Fund budget included \$100,000 for a sewer master plan, a critical component for the planning of future sewer projects. The master plan work was started in fiscal year 2004 and will be completed in fiscal year 2005.

The Water Fund budget included \$200,000 for water main replacement and \$250,000 for construction of a new well. These projects were delayed due to inclement weather in the spring of 2004 and procedural issues with the Michigan Department of Environmental Quality, and will be performed during fiscal year 2005.

Economic Factors and Next Year's Budgets and Rates

The national economy demonstrated indications of recovery during 2003 and 2004. However, Michigan's fiscal crisis is entering its fifth year. State revenues are at their lowest since 1997. A majority of these reductions were self-inflicted. Enacted state tax cuts have eroded the State's ability to generate revenue; the State's fiscal reserves are depleted, and the state economic rebound is lagging behind the national recovery. During fiscal year 2004 and into 2005, the City anticipates a significant reduction in state-shared revenues and grants. To date, these revenue reductions have been masked because of our growth and increased property tax revenues.

To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenues, and expenditures. A water and sewer rate review will be performed early in 2005 in conjunction with preliminary budgeting activities to ensure adequate funding for operation of these systems from user charges. A three-year forecast for water and sewer capital improvements will be incorporated into the rate review.

Contacting the City of Williamston

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Williamston's finances and to demonstrate the City of Williamston's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Williamston Treasurer's Office at (517) 655-2774.

CITY OF WILLIAMSTON
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 805,961	\$ 436,226	\$ 1,242,187	\$ 432,650
Investments	275,658	867,894	1,143,552	697,875
Receivables (Net)				
Accounts	5,692	170,267	175,959	200,000
Assessments	1,473	-	1,473	
Due From Other Funds--Fiduciary Fund	3,412	-	3,412	
Due From Other Funds--Component Units	91,103	-	91,103	
Internal Balances	154,403	(154,403)	-	
Due From State	144,203		144,203	27,400
Prepaid Insurance	33,237	-	33,237	
Restricted Cash		89,975	89,975	6,813
Special Assessments Receivable		243,698	243,698	-
Deferred Charge-Bond Issuance Cost		83,204	83,204	-
Capital Assets, Net of Accumulated Depreciation	1,902,964	12,530,858	14,433,822	1,798,113
Total Assets	3,418,106	14,267,719	17,685,825	3,162,851
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	26,571	11,854	38,425	12,153
Due to Other Funds--Primary Government	-		-	91,103
Deposits Payable			-	3,870
Accrued Interest Payable		40,854	40,854	
Accrued Liabilities	36,771	11,130	47,901	120
Noncurrent Liabilities				
Advances From State	6,539		6,539	
Customer Deposits Payable		8,558	8,558	
Bonds Payable--Due Within One Year	25,000	110,000	135,000	70,000
Bonds Payable--Due in More Than One year	1,600,000	4,221,755	5,821,755	2,240,000
Mortgage Payable--Due Within One Year			-	41,195
Mortgage Payable--Due in More Than One year			-	446,596
Special Assessments Payable--Due Within One Year	46,422		46,422	
Special Assessments Payable--Due in More Than One Year	789,170		789,170	
Installment Loan Payable--Due Within One Year	36,134	125,000	161,134	27,398
Installment Loan Payable--Due in More Than One Year	116,920		116,920	
Vested Employee Benefits Payable	39,174	5,716	44,890	
Total Liabilities	2,722,701	4,534,867	7,257,568	2,932,435
<u>NET ASSETS</u>				
Investment in Capital Assets, Net of Related Debt	1,499,909	8,074,103	9,574,012	(827,077)
Restricted for				
Debt Service	22,815		22,815	
Major and Local Streets	480,046		480,046	
Economic Development Programs			-	29,165
Downtown Development Plans			-	135,926
Tax Increment Finance Plans			-	892,402
Unrestricted	(1,307,365)	1,658,749	351,384	
Total Net Assets	\$ 695,405	\$ 9,732,852	\$ 10,428,257	\$ 230,416

The Notes to Financial Statements are an integral part of this statement.

CITY OF WILLIAMSTON
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

EXHIBIT B

<u>Functions/Programs</u>	PROGRAM REVENUES			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 680,547	\$ 115,242		
Public Safety	504,202	73,362	\$ 761	
Public Works	544,568	1,883	-	\$ 543,054
Health and Welfare	-			
Community and Economic Development	91,685			
Recreation and Culture	50,600			
Other	-			
Interest on Long-Term Debt	76,775			
Total Governmental Activities	1,948,377	190,487	761	543,054
Business-Type Activities				
Sewer	1,067,817	673,283	-	365,185
Water	298,439	589,986	-	265,145
Total Business-Type Activities	1,366,256	1,263,269	-	630,330
Total Primary Government	\$ 3,314,633	\$ 1,453,756	\$ 761	\$ 1,173,384
Component Units				
Economic Development Corporation	\$ 63,528	\$ 68,365	\$ 246	-
Downtown Development Authority	262,436		10,295	\$ 445,741
Tax Increment Finance Authority 2A	3,542	-	2,358	-
Tax Increment Finance Authority 2B	62,541	-	4,662	-
Total Component Units	\$ 392,047	\$ 68,365	\$ 17,561	\$ 445,741

CITY OF WILLIAMSTON
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

EXHIBIT B
(CONTINUED)

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
PRIMARY GOVERNMENT				
<u>Functions/Programs</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
Primary Government				
Governmental Activities				
General Government	\$ (565,305)		\$ (565,305)	
Public Safety	(430,079)		(430,079)	
Public Works	369		369	
Health and Welfare	-		-	
Community and Economic Development	(91,685)		(91,685)	
Recreation and Culture	(50,600)		(50,600)	
Other	-		-	
Interest on Long-Term Debt	(76,775)		(76,775)	
Total Governmental Activities	(1,214,075)	\$ -	(1,214,075)	
Business-Type Activities				
Sewer		(29,349)	(29,349)	
Water		556,692	556,692	
Total Business-Type Activities	-	527,343	527,343	
Total Primary Government	(1,214,075)	527,343	(686,732)	
Component Units				
Economic Development Corporation			-	\$ 5,083
Downtown Development Authority				193,600
Tax Increment Finance Authority 2A				(1,184)
Tax Increment Finance Authority 2B				(57,879)
Total Component Units	\$ -	\$ -	\$ -	\$ 139,620
General Revenues				
Property Taxes	\$ 1,463,436		\$ 1,463,436	\$ 354,673
State-Shared Revenues	329,221		329,221	
Unrestricted Investment Earnings	2,436	\$ 12,067	14,503	-
Rentals			-	
Reimbursements	-		-	
Special Item--Gain on Disposal of Capital Assets	69,327		69,327	14,943
Transfers	236,070	(57,565)	178,505	(178,505)
Total General Revenues--Special Items and Transfers	2,100,490	(45,498)	2,054,992	191,111
Change in Net Assets	886,415	481,845	1,368,260	191,111
Net Assets--Beginning	(191,010)	9,251,007	9,059,997	(100,315)
Net Assets--Ending	\$ 695,405	\$ 9,732,852	\$ 10,428,257	\$ 230,416

The Notes to Financial Statements are an integral part of this statement.

**CITY OF WILLIAMSTON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

EXHIBIT C

	General	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 413,037	\$ 392,924	\$ 805,961
Investments	194,126	81,532	275,658
Receivables			
Accounts	5,612	80	5,692
Special Assessments	1,473		1,473
Due From Other Funds--Primary Government	188,703	44,052	232,755
Due From Other Funds--Component Units	91,103		91,103
Due From State	107,418	36,785	144,203
Prepaid Expenses	33,237		33,237
Total Assets	<u>\$ 1,034,709</u>	<u>\$ 555,373</u>	<u>\$ 1,590,082</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Accounts Payable	\$ 20,328	\$ 6,243	\$ 26,571
Due to Other Funds--Primary Government	44,052	30,888	74,940
Accrued Liabilities	36,384	387	36,771
Escrow Deposits Payable	6,539		6,539
Deferred Revenue	1,473		1,473
Total Liabilities	<u>108,776</u>	<u>37,518</u>	<u>146,294</u>
Fund Balances			
Reserved for			
Debt Service		22,815	22,815
Unreserved--Undesignated	925,933	495,040	1,420,973
Total Fund Equity	<u>925,933</u>	<u>517,855</u>	<u>1,443,788</u>
Total Liabilities and Fund Equity	<u>\$ 1,034,709</u>	<u>\$ 555,373</u>	<u>\$ 1,590,082</u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF WILLIAMSTON
RECONCILIATION OF FUND BALANCES ON
THE BALANCE SHEET FOR GOVERNMENTAL
FUNDS TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES ON THE STATEMENT OF NET ASSETS
June 30, 2004**

EXHIBIT C-1

Fund Balances--Total Governmental Funds	\$ 1,443,788
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add--Capital Assets	2,901,747
Deduct--Accumulated Depreciation	<u>(998,783)</u>

Net Capital Asset Addition	<u>1,902,964</u>
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Revenues that do not provide current financial resources are not reported as revenue in the funds.	1,473
----------------------------------------------------------------------------------------------------	-------

Certain liabilities, such as compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

Deduct--Long-Term Debt	(2,613,646)
Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(39,174)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 695,405</u></u>
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The Notes to Financial Statements are an integral part of this statement.

CITY OF WILLIAMSTON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

EXHIBIT D

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes and Penalties	\$ 1,463,436		\$ 1,463,436
Licenses and Permits	19,026	\$ 50,138	69,164
State Grants	329,982	216,600	546,582
Charges for Services	19,981	10,299	30,280
Fines and Forfeits	5,853	-	5,853
Interest and Rentals	45,699	1,883	47,582
Other Revenue	39,861	326,454	366,315
Total Revenues	1,923,838	605,374	2,529,212
Expenditures			
Current			
General Government	601,972	56,843	658,815
Public Safety	476,475		476,475
Public Works	324,155	473,473	797,628
Health and Welfare	-	-	-
Community and Economic Development	91,685	-	91,685
Recreation and Cultural	50,600	-	50,600
Capital Outlay	300,958	-	300,958
Debt Service			
Principal	41,996	20,000	61,996
Interest and Fiscal Fees	-	76,775	76,775
Total Expenditures	1,887,841	627,091	2,514,932
Excess of Revenues Over (Under) Expenditures	35,997	(21,717)	14,280
Other Financing Sources (Uses)			
Installment Agreement Proceeds	195,050	-	195,050
Interfund Transfers In			
Primary Government	89,650	172,168	261,818
Component Units	105,820	60,000	165,820
Interfund Transfers (Out)--Primary Government	(144,500)	(47,068)	(191,568)
Sale of Capital Assets	69,327		69,327
Total Other Financing Sources (Uses)	315,347	185,100	500,447
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	351,344	163,383	514,727
Fund Balance (Deficit)--July 1, 2003	574,589	205,307	779,896
Restatements to Fund Balance--July 1, 2003	-	149,165	149,165
Restated Fund Balance--July 1, 2003	574,589	354,472	929,061
Fund Balance (Deficit)--June 30, 2004	\$ 925,933	\$ 517,855	\$ 1,443,788

The Notes to Financial Statements are an integral part of this statement.

**CITY OF WILLIAMSTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ 514,727

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, the costs of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	623,184
Deduct--Depreciation Expense	(153,293)

Revenues earned but not available for current resources are not reported in the funds.

Sidewalk Special Assessments	181
------------------------------	-----

Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	108,418
Subtract Proceeds From Borrowings	(195,050)

Some expenses reported in the statement of activities do not require the use of
current financial resources and, therefore, are not reported as expenditures
in the funds.

(11,752)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 886,415

The Notes to Financial Statements are an integral part of this statement.

CITY OF WILLIAMSTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

EXHIBIT E

	BUSINESS-TYPE ACTIVITIES		Total Enterprise Funds
	Sewer	Water	
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 85,754	\$ 350,472	\$ 436,226
Investments	814,250	53,644	867,894
Customer Accounts Receivable	91,057	79,210	170,267
Total Current Assets	991,061	483,326	1,474,387
Noncurrent Assets			
Restricted Cash	89,975		89,975
Special Assessments Receivable	243,698		243,698
Deferred Charge-Bond Issuance Cost	83,204		83,204
Capital Assets, Net of Accumulated Depreciation	10,314,305	2,216,553	12,530,858
Total Noncurrent Assets	10,731,182	2,216,553	12,947,735
Total Assets	11,722,243	2,699,879	14,422,122
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	8,301	3,553	11,854
Due to Other Funds--Primary Government	128,973	25,430	154,403
Accrued Interest Payable	40,605	249	40,854
Accrued Liabilities	7,207	3,923	11,130
Total Current Liabilities	185,086	33,155	218,241
Noncurrent Liabilities			
Customer Deposits Payable		8,558	8,558
Bonds Payable-Due Within One Year	110,000		110,000
Bonds Payable, Net of Unamortized Discounts			
Due in More Than One Year	4,221,755		4,221,755
Installment Purchase Payable			
Due Within One Year	60,000	65,000	125,000
Vested Employee Benefits Payable	5,716		5,716
Total Noncurrent Liabilities	4,397,471	73,558	4,471,029
Total Liabilities	4,582,557	106,713	4,689,270
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	5,922,550	2,151,553	8,074,103
Unrestricted	1,217,136	441,613	1,658,749
Total Net Assets	\$ 7,139,686	\$ 2,593,166	\$ 9,732,852

The Notes to Financial Statements are an integral part of this statement.

CITY OF WILLIAMSTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--ENTERPRISE FUNDS
For the Year Ended June 30, 2004

EXHIBIT F

	BUSINESS-TYPE ACTIVITIES		Total Enterprise Funds
	Sewer	Water	
Operating Revenues			
Water Sales		\$ 567,780	\$ 567,780
Sewage Disposal Services	\$ 652,530		652,530
Interest on Special Assessments	20,753		20,753
Other		22,206	22,206
Total Operating Revenues	673,283	589,986	1,263,269
Operating Expenses			
Salaries and Wages	180,363	58,803	239,166
Fringe Benefits	68,901	22,149	91,050
Contractual Services	125,331	43,383	168,714
Equipment Repair and Maintenance	15,505	21,002	36,507
Utilities	69,712	15,756	85,468
Insurance	11,081	2,623	13,704
Other Supplies and Expenses	65,657	70,182	135,839
Depreciation	293,859	58,747	352,606
Total Operating Expenses	830,409	292,645	1,123,054
Operating Income (Loss)	(157,126)	297,341	140,215
Nonoperating Revenues (Expenses)			
Interest and Investment Revenue	9,898	2,169	12,067
Interest Expense	(216,970)	(5,794)	(222,764)
Bond Amortization Expense	(20,438)		(20,438)
Total Nonoperating Revenues (Expenses)	(227,510)	(3,625)	(231,135)
Income (Loss) Before Contributions and Transfers	(384,636)	293,716	(90,920)
Capital Contributions	365,185	265,145	630,330
Interfund Transfers			
Transfers In	79,517	17,800	97,317
Transfers (Out)	(51,050)	(103,832)	(154,882)
Change in Net Assets	9,016	472,829	481,845
Total Net Assets--July 1, 2003	7,130,670	2,120,337	9,251,007
Total Net Assets--June 30, 2004	\$7,139,686	\$2,593,166	\$9,732,852

The Notes to Financial Statements are an integral part of this statement.

CITY OF WILLIAMSTON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2004

EXHIBIT G

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Sewer Fund	Water Fund	Total
Cash Flows From Operating Activities			
Charges for Services	\$ 668,980	\$ 565,380	\$ 1,234,360
Miscellaneous	-	22,206	22,206
Goods and Services Purchased	(293,291)	(153,263)	(446,554)
Salaries and Fringes	(245,789)	(79,183)	(324,972)
Net Cash Provided by Operating Activities	129,900	355,140	485,040
Cash Flows From Noncapital Financing Activities			
Customer Deposits	(39,517)	(300)	(39,817)
Operating Transfers In From Other Funds	79,517	17,800	97,317
Operating Transfers (Out) to Other Funds	(51,050)	(103,832)	(154,882)
Due to Other Funds	30,316	(7,726)	22,590
Due to Component Units	12,972		12,972
Net Cash Flows From Noncapital Financing Activities	32,238	(94,058)	(61,820)
Cash Flows From Capital and Related Financing Activities			
Collection of Customer Assessments	62,421		62,421
Acquisition of Capital Assets	(421,090)	(265,145)	(686,235)
Capital Contributions	365,185	265,145	630,330
Principal Paid on Debt	(148,505)	(65,000)	(213,505)
Interest Paid on Debt	(218,303)	(6,043)	(224,346)
Bond Amortization Expense	(20,438)	-	(20,438)
Deferred Charge	5,943	-	5,943
Net Cash Provided (Used) by Capital and Related Financing Activities	(374,787)	(71,043)	(445,830)
Cash Flows From Investing Activities			
Interest on Cash Equivalents	9,898	2,169	12,067
Purchase of Investments	(7,200)	(474)	(7,674)
Net Cash Provided by Investing Activities	2,698	1,695	4,393
Net Increase in Cash and Cash Equivalents	(209,951)	191,734	(18,217)
Cash and Cash Equivalents at Beginning of the Year	385,680	158,738	544,418
Cash and Cash Equivalents at End of the Year	\$ 175,729	\$ 350,472	\$ 526,201
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (157,126)	\$ 297,341	\$ 140,215
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	293,859	58,747	352,606
Changes in Assets and Liabilities			
Decrease (Increase) in Accounts Receivable	(4,303)	(2,400)	(6,703)
Increase (Decrease) in Accounts Payable	(6,005)	(317)	(6,322)
Increase (Decrease) in Accrued Liabilities	3,475	1,769	5,244
Net Cash Provided by Operating Activities	\$ 129,900	\$ 355,140	\$ 485,040

The Notes to Financial Statements are an integral part of this statement.

**CITY OF WILLIAMSTON
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2004**

EXHIBIT H

	<u>Agency Fund</u>
 <u>ASSETS</u>	
Cash	\$ 21,223
Accounts Receivable	<u>405</u>
Total Assets	<u><u>\$ 21,628</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Due to Other Funds--Primary Government	\$ 3,412
Due to Other Governmental Units	<u>18,216</u>
Total Liabilities	<u><u>\$ 21,628</u></u>

**CITY OF WILLIAMSTON
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2004**

EXHIBIT I

	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority 2A	Tax Increment Finance Authority 2B	Total
<u>ASSETS</u>					
Current Assets					
Cash	\$ 31,515	\$ 164,749	\$ 182,605	\$ 53,781	\$ 432,650
Investments	9,848	10,254	184,687	493,086	697,875
Accounts Receivable	200,000				200,000
Due From State		27,400			27,400
Total Current Assets	241,363	202,403	367,292	546,867	1,357,925
Noncurrent Assets					
Restricted Cash		6,813			6,813
Capital Assets (Net of Accumulated Depreciation)	663,024	955,482	62,871	116,736	1,798,113
Total Noncurrent Assets	663,024	962,295	62,871	116,736	1,804,926
Total Assets	904,387	1,164,698	430,163	663,603	3,162,851
<u>LIABILITIES</u>					
Current Liabilities					
Accounts Payable	628	4,561	125	6,839	12,153
Accrued Liabilities		120			120
Due to Other Funds--Primary Government	7,701	68,609	2,467	12,326	91,103
Deposits Payable	3,870				3,870
Total Current Liabilities	12,199	73,290	2,592	19,165	107,246
Noncurrent Liabilities					
Bonds Payable--Due Within One Year		70,000			70,000
Bonds Payable--Due in More Than One Year		2,240,000			2,240,000
Mortgage Payable--Due Within One Year	41,195				41,195
Mortgage Payable--Due in More Than One Year	446,596				446,596
Installment Purchase Agreements Payable--Due Within One Year		27,398			27,398
Total Noncurrent Liabilities	487,791	2,337,398	-	-	2,825,189
Total Liabilities	499,990	2,410,688	2,592	19,165	2,932,435
<u>NET ASSETS</u>					
Invested in Capital Assets--Net of Related Debt Restricted for	375,232	(1,381,916)	62,871	116,736	(827,077)
Economic Development Programs	29,165				29,165
Downtown Development Plan		135,926			135,926
Tax Increment Finance Plans			364,700	527,702	892,402
Total Net Assets	\$ 404,397	\$ (1,245,990)	\$ 427,571	\$ 644,438	\$ 230,416

The Notes to Financial Statements are an integral part of this statement.

CITY OF WILLIAMSTON
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
Year Ended June 30, 2004

EXHIBIT J

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority 2A	Tax Increment Finance Authority 2B	Total
Economic Development Corporation									
Community and Economic Development	\$ 34,072	\$ 68,365	\$ 246		\$ 34,539				\$ 34,539
Interest on Related Debt	29,456				(29,456)				(29,456)
Total Economic Development Corporation	63,528	68,365	246	\$ -	5,083	\$ -	\$ -	\$ -	5,083
Downtown Development Authority									
Community and Economic Development	113,171		1,792	445,741		334,362			334,362
Interest and Other Expenses on Related Debt	149,265		8,503			(140,762)			(140,762)
Total Downtown Development Authority	262,436	-	10,295	445,741	-	193,600	-	-	193,600
Tax Increment Finance Authority 2A									
Community and Economic Development	3,542		2,358				(1,184)		(1,184)
Interest on Related Debt							-		-
Total Tax Increment Finance Authority 2A	3,542	-	2,358	-	-	-	(1,184)	-	(1,184)
Tax Increment Finance Authority 2B									
Community and Economic Development	62,541		4,662					(57,879)	(57,879)
Interest on Related Debt								-	-
Total Tax Increment Finance Authority 2B	\$ 62,541	\$ -	\$ 4,662	\$ 445,741	-	-	-	(57,879)	(57,879)
General Revenues									
Property Taxes						354,673			354,673
Special Item--Gain on Sale of Fixed Assets					14,943				14,943
Transfers					(80,000)	(59,820)	(18,685)	(20,000)	(178,505)
Total General Revenues									
Special Items and Transfers					(65,057)	294,853	(18,685)	(20,000)	191,111
Change in Net Assets					(59,974)	488,453	(19,869)	(77,879)	330,731
Net Assets--Beginning of Year					464,371	(1,734,443)	447,440	722,317	(100,315)
Net Assets--End of Year					\$ 404,397	\$ (1,245,990)	\$ 427,571	\$ 644,438	\$ 230,416

The Notes to Financial Statements are an integral part of this statement.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Williamston conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by City of Williamston:

Reporting Entity

The City of Williamston encompasses an area of approximately 3.7 square miles and is located approximately 20 miles east of Lansing and 65 miles west of Detroit.

The city was incorporated in 1963 as a home rule city under the council-manager form of government. The city council consists of seven council members who are elected at large. Every two years four council members are elected. The mayor, who is recognized as the chief executive officer of the city, and the mayor pro-tem are elected by the council from among its members. The city manager is the administrative agent of the council and is appointed by the council to serve at its pleasure. All other city administrative officers are appointed by the city manager.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included. The component units total is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description of each component unit).

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority

The Downtown Development Authority was created under the provisions of Public Act 197 of 1975, as amended, to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The authority's governing body, which consists of nine individuals, is selected by the city council. In addition, the authority's budget is subject to approval by the city council.

Economic Development Corporation

The Economic Development Corporation was created under the provisions of Public Act 338 of 1974, as amended, to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the city so as to provide needed services and facilities of such enterprises to the residents of the city. The corporation's governing body, which consists of nine individuals, is selected by the city council.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Increment Finance Authorities (2A and 2B)

The Tax Increment Finance Authorities (2A and 2B) were created under the provisions of Public Act 450 of 1980, as amended, to prevent urban deterioration, to encourage development and activity, and to encourage neighborhood revitalization and historic preservation. The authorities' governing body is the same as the Economic Development Corporation that is selected by the city council and consists of nine individuals.

Complete financial statements of the individual component units can be obtained from their respective administrative offices located in city hall:

Administrative Offices

City of Williamston
161 East Grand River Avenue
Williamston, MI 48895

JOINTLY GOVERNED ORGANIZATIONS

The city is a member of the Northeast Ingham Emergency Service Authority (NIESA) which provides emergency services to the residents of Northeast Ingham County. The participating communities provided funding for its operations until December 1998, at which time a millage was levied to provide annual funding. The city is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the authority can be obtained from the Community Fire Board offices at 627 East Grand River, Williamston, Michigan.

BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the city.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The city reports the following major governmental fund:

The General Fund is the city's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The city reports the following major proprietary funds:

The Sewer Fund accounts for the revenues and expenses for the operation of the sewer system.

The Water Fund accounts for the revenues and expenses for the operation of the water system.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The city has elected to consistently apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as needed.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Inventories and Prepaid Items

No inventory is maintained. Payments for supplies are recorded as expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets for the primary government, component units and enterprise funds, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GASB No. 34 requires major networks and major subsystem of infrastructure assets acquired, donated, constructed, or substantially rehabilitated be reported prospectively. The City of Williamston has capitalized the current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The city has not retroactively capitalized the major infrastructure assets as of June 30, 2004, as permitted by GASB No. 34. GASB No. 34 encourages but does not require phase 3 governments (City of Williamston) to report major general infrastructure assets retroactively since fiscal years ending after June 30, 1980 by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. For the City of Williamston, the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34 will be July 1, 2007. If the city does report the retroactive infrastructure assets, a prior period adjustment will be made to the government-wide financial statements.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Land Improvements	10 to 30 years
Buildings	10 to 50 years
Office Equipment	4 to 10 Years
Machinery and Equipment	7 to 10 years
Vehicles	4 to 7 years
Infrastructure	20 years

Compensated Absences (Vacation and Sick Leave)

It is the city's policy to permit employees to accumulate earned sick and vacation pay benefits for all of the employees. The liability for unpaid accumulated sick leave is 50% of the time available according to the city's union contracts and personnel policy. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year-end.

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Other Financing Sources (Uses)

The transfers of cash between the various city funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Pursuant to statute, prior to the commencement of the fiscal year, the budget is legally enacted through adoption by the city council. Budgets are adopted for the General Fund and Special Revenue Funds as required by statute. Budgets are adopted on a basis consistent with the accounting principles followed in recording transactions. The city's annual budget is adopted on a departmental basis at the activity level. The City Council monitors and amends the budgets as necessary.

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The city has not complied with certain provisions of Public Act 2 of 1968, as amended. Expenditures were incurred in excess of the amount appropriated in the amended budget for one activity of the General Fund as follows:

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>
General Fund			
Public Safety			
Ingham County Hazmat Team	\$ -	\$ 2,000	\$ (2,000)

NOTE C--CASH, DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits are in three financial institutions in the name of the City of Williamston Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the city to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations, bonds, securities and other direct obligations of the United States; or any agency or instrumentality of the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more that 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The city's deposits are in accordance with statutory authority.

The City of Williamston Council has designated three banks for the deposit of city funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in the instruments described in the preceding paragraph. The city's deposits and investment policy are in accordance with statutory authority.

At fiscal year-end, the city's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Primary Government</u>				
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 805,961	\$ 436,226	\$21,223	\$ 1,263,410	\$ 432,650
Restricted Cash		89,975		89,975	6,813
Investments	<u>275,658</u>	<u>867,894</u>	<u></u>	<u>1,143,552</u>	<u>697,875</u>
Total Deposits	<u>\$ 1,081,619</u>	<u>\$1,394,095</u>	<u>\$21,223</u>	<u>\$ 2,496,937</u>	<u>\$ 1,137,338</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH, DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,352,755	\$ 439,463
Investments in Securities, Mutual Funds and Similar Vehicles	1,143,552	697,875
Petty Cash and Cash on Hand	630	
Total	<u>\$ 2,496,937</u>	<u>\$1,137,338</u>

The bank balance of the primary government's deposits is \$1,397,765, of which \$200,000 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$439,028 of which \$106,813 was covered by Federal depository insurance.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the city or its agent in the city's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the city's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the city's name.

At year-end, the city's investment balances were categorized as follows:

	Reported Amount (Fair Value)
Investments Not Subject to Categorization	
Business Money Market (MM)	\$ 1,840,825
Government Operating MM Fund	602
Total Primary Government	<u>\$ 1,841,427</u>

The city has investments with Bank One. The nature of mutual funds, insurance annuities, bond funds and equity pools does not allow for risk-categorization, which is in accordance with GASB Statement No. 3. The risk and nonrisk-categorized investments are carried at cost, which is also the market value.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE D--PROPERTY TAXES

Property taxes are levied on each July 1st on the taxable valuation of property located in the city as of the preceding December 31st. The city property taxes were levied and collectible on July 1, 2003. It is the policy of the City of Williamston to recognize revenue from the current tax levy in the fiscal year when proceeds of this levy are budgeted and made available for the financing of operations.

The 2003 State Equalized Valuation of the city totaled \$110,441,160 and the State Taxable Valuation was \$86,591,314 (net of captured taxes), on which ad valorem taxes levied consisted of 15.8781 mills and raising \$1,374,906 for city operations. This is recorded as revenue in the General Fund, which also includes industrial facility taxes, penalties, interest and administrative fees, for a total of \$1,463,436 (net of tax tribunal refunds).

NOTE E--RECEIVABLES

Receivables-Primary Government

The following amounts listed as accounts receivable in the primary government funds have been collected within 90 days after year end and are not offset by deferred revenue, except for the \$1,473 General Fund sidewalk special assessment, which is offset by deferred revenue and the \$243,698 Sewer Fund special assessment:

General Fund (Major Fund)

Billings	\$ 5,612
Special Assessment	<u>1,473</u>

Total General Fund	<u>\$ 7,085</u>
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Water and Sewer Funds (Major Fund)

Billings	170,267
Special Assessment	<u>243,698</u>

Total Water and Sewer	<u>413,965</u>
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Special Revenue Funds (Non-Major Funds)

Major Street	
Billings	<u>80</u>

Total Special Revenue Funds	<u>80</u>
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Total Primary Government Receivables	<u><u>\$ 421,130</u></u>
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CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE E--RECEIVABLES (Continued)

Receivables-Economic Development Fund (Component Unit)

The receivable of \$200,000 in the Economic Development Fund is the balance due from the sale of the Industrial Park.

NOTE F--CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 242,350			\$ 242,350
Land Improvements	317,395			317,395
Subtotal	559,745	\$ -	\$ -	559,745
Capital Assets Being Depreciated				
Land Improvements	294,530		37,494	257,036
Buildings	800,684		15,957	784,727
Office Equipment	104,573	13,260	58,254	59,579
Machinery and Equipment	372,328	61,108	82,289	351,147
Vehicles	528,564	226,590	187,867	567,287
Infrastructure		322,226		322,226
Subtotal	2,100,679	623,184	381,861	2,342,002
Less Accumulated Depreciation for				
Land Improvements	173,032	11,316	37,494	146,854
Buildings	239,673	18,654	15,387	242,940
Office Equipment	80,822	7,876	45,650	43,048
Machinery and Equipment	261,494	35,348	26,173	270,669
Vehicles	403,040	80,098	187,866	295,272
Infrastructure				-
Subtotal	1,158,061	153,292	312,570	998,783
Net Capital Assets Being Depreciated	942,618	469,892	69,291	1,343,219
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$1,502,363</u>	<u>\$469,892</u>	<u>\$ 69,291</u>	<u>\$1,902,964</u>

CITY OF WILLIAMSTON
NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

	<u>Amount</u>
Governmental Activities	
General Government	\$ 14,600
Public Safety	26,228
Public Works	<u>112,464</u>
Total Deprecation--Governmental Activities	<u><u>\$ 153,292</u></u>

<u>Business-Type Activities</u>	<u>07/01/2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>06/30/2004</u>
Capital Assets Not Being Depreciated				
Land	<u>\$ 436,557</u>			<u>\$ 436,557</u>
Subtotal	<u>436,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>436,557</u>
Capital Assets Being Depreciated				
Water and Sewer System	15,037,536	667,374	(9,725)	15,695,185
Equipment	<u>520,163</u>	<u>18,860</u>	<u>(21,096)</u>	<u>517,927</u>
Subtotal	<u>15,557,699</u>	<u>686,234</u>	<u>(30,821)</u>	<u>16,213,112</u>
Less: Accumulated Depreciation for				
Water and Sewer System	3,583,415	326,792	(9,725)	3,900,482
Equipment	<u>213,363</u>	<u>26,063</u>	<u>(21,097)</u>	<u>218,329</u>
Subtotal	<u>3,796,778</u>	<u>352,855</u>	<u>(30,822)</u>	<u>4,118,811</u>
Net Capital Assets Being Depreciated	<u>11,760,921</u>	<u>333,379</u>	<u>1</u>	<u>12,094,301</u>
Total Capital Assets--Net of Depreciation	<u><u>\$ 12,197,478</u></u>	<u><u>\$ 333,379</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 12,530,858</u></u>

Depreciation expense was charged to business-type programs of the primary government as follows:

Business-Type Funds	
Water	\$ 58,747
Sewer	<u>293,859</u>
Total Business-Type Funds	<u><u>\$352,606</u></u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)Component Units

Capital asset activity of the Economic Development Corporation (EDC) for the current year was as follows:

	<u>07/01/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/2004</u>
Capital Assets Not Being Depreciated				
Land	<u>\$331,780</u>	<u> </u>	<u>\$301,780</u>	<u>\$ 30,000</u>
Subtotal	<u>331,780</u>	<u>\$ -</u>	<u>301,780</u>	<u>30,000</u>
Capital Assets Being Depreciated				
Land Improvements	15,510			15,510
Buildings	736,224			736,224
Machinery and Equipment	<u>16,229</u>	<u>16,943</u>	<u>16,229</u>	<u>16,943</u>
Subtotal	<u>767,963</u>	<u>16,943</u>	<u>16,229</u>	<u>768,677</u>
Less Accumulated Depreciation for				
Land Improvements	2,994	721		3,715
Buildings	107,115	20,587		127,702
Machinery and Equipment	<u>4,057</u>	<u>4,236</u>	<u>4,057</u>	<u>4,236</u>
Subtotal	<u>114,166</u>	<u>25,544</u>	<u>4,057</u>	<u>135,653</u>
Net Capital Assets Being Depreciated	<u>653,797</u>	<u>(8,601)</u>	<u>12,172</u>	<u>633,024</u>
Total Capital Assets--Net of Depreciation	<u>\$985,577</u>	<u>\$ (8,601)</u>	<u>\$313,952</u>	<u>\$663,024</u>

Depreciation expense for the year was \$25,544.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Capital asset activity of the Downtown Development Authority (DDA) for the current year was as follows:

	<u>07/01/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/2004</u>
Capital Assets Not Being Depreciated				
Land	\$144,093			\$144,093
Land Improvements		\$123,736		123,736
Subtotal	<u>144,093</u>	<u>123,736</u>	<u>\$ -</u>	<u>267,829</u>
Capital Assets Being Depreciated				
Land Improvements	312,656	491,053	7,226	796,483
Buildings	156,468		760	155,708
Machinery and Equipment	14,000			14,000
Subtotal	<u>483,124</u>	<u>491,053</u>	<u>7,986</u>	<u>966,191</u>
Less Accumulated Depreciation for				
Land Improvements	181,896	30,894	6,086	206,704
Buildings	53,646	4,449	261	57,834
Machinery and Equipment	10,500	3,500		14,000
Subtotal	<u>246,042</u>	<u>38,843</u>	<u>6,347</u>	<u>278,538</u>
Net Capital Assets Being Depreciated	<u>237,082</u>	<u>452,210</u>	<u>1,639</u>	<u>687,653</u>
Total Capital Assets--Net of Depreciation	<u>\$381,175</u>	<u>\$ 575,946</u>	<u>\$ 1,639</u>	<u>\$955,482</u>

Depreciation expense for the year was \$38,843.

Capital asset activity of the TIFA 2A for the current year was as follows:

	<u>07/01/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/2004</u>
Capital Assets Not Being Depreciated				
Land	\$ 62,871			\$ 62,871
Total Capital Assets--Net of Depreciation	<u>\$ 62,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,871</u>

CITY OF WILLIAMSTON
NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Capital asset activity of the TIFA 2B for the current year was as follows:

	<u>07/01/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/2004</u>
Capital Assets Not Being Depreciated				
Land	<u>\$112,694</u>	<u> </u>	<u> </u>	<u>\$112,694</u>
Subtotal	<u>112,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>112,694</u>
Capital Assets Being Depreciated				
Land Improvements		4,491		4,491
Buildings	<u>1,485</u>	<u> </u>	<u>1,485</u>	<u>-</u>
Subtotal	<u>1,485</u>	<u>4,491</u>	<u>1,485</u>	<u>4,491</u>
Less Accumulated Depreciation for				
Land Improvements		449		449
Buildings	<u>1,485</u>	<u> </u>	<u>1,485</u>	<u>-</u>
Subtotal	<u>1,485</u>	<u>449</u>	<u>1,485</u>	<u>449</u>
Net Capital Assets Being Depreciated	<u> </u>	<u>4,042</u>	<u> </u>	<u>4,042</u>
Total Capital Assets--Net of Depreciation	<u>\$112,694</u>	<u>\$ 4,042</u>	<u>\$ -</u>	<u>\$116,736</u>

Depreciation expense for the year was \$449.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of the interfund receivables and payables between funds of the primary government and component units are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Primary Government			
General	\$188,703	Non-Major Governmental	\$ 30,888
		Sewer	128,973
		Water	25,430
		Tax Collection--Fudiciary	3,412
Non-Major Governmental	<u>44,052</u>	General	<u>44,052</u>
Total Primary Government	<u><u>\$232,755</u></u>		<u><u>\$232,755</u></u>
<u>Primary Government</u>		<u>Component Units</u>	
General	\$ 91,103	Economic Development Corporation	\$ 7,701
		Downtown Development Authority	68,609
		Tax Increment Finance Authority 2A	2,467
		Tax Increment Finance Authority 2B	<u>12,326</u>
Total Primary Government	<u><u>\$ 91,103</u></u>	Total Component Units	<u><u>\$ 91,103</u></u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS
(Continued)

The 2004 operating transfers from Exhibits D, F and J can be summarized as follows:

	<u>Transfers In</u>		<u>Transfers (Out)</u>
<u>Primary Government</u>			
General	\$ 89,650	Non-Major Governmental Sewer Water	\$ 9,900 42,750 37,000
Non-Major Governmental Water	135,000 9,500	General	144,500
Non-Major Governmental Sewer	37,168 66,832	Non-Major Governmental Water	37,168 66,832
Water	<u>8,300</u>	Sewer	<u>8,300</u>
Total Primary Government	<u>346,450</u>		<u>346,450</u>
<u>Primary Government</u>		<u>Component Units</u>	
General	105,820	Economic Development Corporation	20,000
		Downtown Development Authority	59,820
		Tax Increment Finance Authority 2A	6,000
		Tax Increment Finance Authority 2B	20,000
Non-Major Governmental Sewer	60,000 <u>12,685</u>	Economic Development Corporation	60,000
		Tax Increment Finance Authority 2A	<u>12,685</u>
Total Primary Government	<u>178,505</u>	Total Component Units	<u>178,505</u>
Total Reporting Entity	<u><u>\$524,955</u></u>		<u><u>\$ 524,955</u></u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE H--LEASES

Capital Leases--The city has entered into an installment purchase agreement on June 25, 2003 as lessee for financing the purchase of a Vactor sewer cleaner. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

Year Ended June 30	
2005	\$ 41,996
2006	41,996
2007	41,996
2008	<u>41,996</u>
Total Minimum Lease Payments	<u>167,984</u>
Less: Amount Representing Interest	
2005	5,862
2006	4,478
2007	3,041
2008	<u>1,549</u>
Total Amount Representing Interest	<u>14,930</u>
Present Value	<u><u>\$ 153,054</u></u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT

The city issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the city. City contractual agreements and installment purchase agreements are also general obligations of the city. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the city is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

<u>Governmental Activities</u>	<u>Balance 07/01/2003</u>	<u>Additions (Reductions)</u>	<u>Balance 06/30/2004</u>	<u>Due Within One Year</u>
\$1,395,000, 2002 Series, General Obligation Limited Tax Bonds. Due in 19 annual installments at interest ranging between 4.50% through 5.10% for Tobias/Linn Drain Sewer System at large.	\$ 1,395,000	\$ (20,000)	\$ 1,375,000	\$ 25,000
\$250,000, 2003 Series, Michigan Transportation Fund Bonds, Due in 14 annual installments at interest ranging between 3.00% through 4.35% for major street improvements	250,000		250,000	
\$928,436, 2003 Special Assessment for Tobias/Linn Road project payable to Ingham County Drain Commission. Due in 20 annual decreasing installments at interest rate of 5.00%.	882,014	(46,422)	835,592	46,422
Installment Purchase Agreement \$195,050. To purchase a Vactor sewer cleaner, payable in 5 years to Vactor Manufacturing, Inc., at an interest rate of 3.83%.		195,050 (41,996)	153,054	36,134
Vested Employee Benefits Payable	<u>27,421</u>	<u>11,753</u>	<u>39,174</u>	
Total Governmental Activities	<u>\$ 2,554,435</u>	<u>\$ 98,385</u>	<u>\$ 2,652,820</u>	<u>\$ 107,556</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

<u>Business-Type Activities</u>	<u>Balance 07/01/2003</u>	<u>Additions (Reductions)</u>	<u>Balance 06/30/2004</u>	<u>Due Within One Year</u>
\$850,000, 1996 Series, Revenue Bonds (Water and Sewer Improvements), due in annual installments at interest rates between 4% through 5.7%.	\$ 660,000	\$ (35,000)	\$ 625,000	\$ 40,000
\$585,000, 1996 Series, Special Assessment Limited Tax Bonds, due in annual installments at interest rates between 5% through 8% (Net of Amortization of \$17,159).	341,281	(38,440)	302,841	40,000
\$3,700,000, 2001 Series, General Obligation Unlimited Tax Refunding Bonds. Issued 2001 General Obligation Refunding Bonds leaving a balance of \$3,700,000 in 2001. Due in 18 annual installments at interest rates between 3% through 4.7% (Net of Amortization of \$181,086).	3,420,979	(17,065)	3,403,914	30,000
Installment Purchase Agreement dated July 1, 1999, \$161,000. To purchase the Victory Meadows Lift Station, payable in 6 annual installments to Independent Bank at an interest rate of 4.6%.	59,000	(29,000)	30,000	30,000
Installment Purchase Agreement dated July 7, 1999, \$161,000. To purchase the Victory Meadow Lift Station, payable in 6 annual installments to Independent Bank at an interest rate of 4.6%.	59,000	(29,000)	30,000	30,000
Installment Purchase Agreement \$355,000 To purchase the Wellfield Property, payable in 6 years at an interest rate of 4.6% to Independent Bank.	130,000	(65,000)	65,000	65,000
Vested Employee Benefits Payable	<u>4,528</u>	<u>1,188</u>	<u>5,716</u>	<u></u>
Total Business-Type Activities	<u>\$ 4,674,788</u>	<u>\$ (212,317)</u>	<u>\$4,462,471</u>	<u>\$ 235,000</u>

CITY OF WILLIAMSTON
NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

<u>Component Unit Activities</u>	<u>Balance 07/01/2003</u>	<u>Additions (Reductions)</u>	<u>Balance 06/30/2004</u>	<u>Due Within One Year</u>
<u>Downtown Development Authority (DDA)</u>				
\$1,895,000, 1994 Series, Limited Tax General Obligation Downtown Development Bonds. Issued 1999 DDA Refunding Bonds leaving a balance due of \$210,000 in 1999. Due in 6 annual installments at interest rates between 5.6% through 7%.	\$ 80,000	\$ (40,000)	\$ 40,000	\$ 40,000
\$425,000, 1994 Series, Limited Tax General Obligation Downtown Development Bonds. Due in 26 annual installments starting on November 1, 1998 and interest starting on May 1, 1995 at interest rates between 5.6% through 7.125%.	375,000	(375,000)		
\$1,945,000, 1999 Series, Limited Tax General Obligation Downtown Development Refunding Bonds. Due in 25 annual installments at interest rates ranging between 3.4% through 4.95%.	1,880,000	(15,000)	1,865,000	20,000
\$425,000, 1994 Series, Limited Tax General Obligation Downtown Development Bonds. Issued 2004 DDA Refunding Bonds leaving a balance due of \$405,000 in 2004. Due in 20 annual installments at interest rates between 2.0% through 5.0%.		405,000	405,000	10,000
Land Contract \$115,191. To purchase Deer Creek Car Wash property in 5 annual installments at 9.5% interest payable to individuals.	52,418	(25,020)	27,398	27,398
Total Downtown Development Authority	<u>\$ 2,387,418</u>	<u>\$ (50,020)</u>	<u>\$2,337,398</u>	<u>\$ 97,398</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

<u>Economic Development Coporation (EDC)</u>	<u>Balance 07/01/2003</u>	<u>Additions (Reductions)</u>	<u>Balance 06/30/2004</u>	<u>Due Within One Year</u>
Mortgage payable \$684,000. To purchase a parcel of land and certain improvements to house some city offices, payable in quarterly installments over a period of 15 years at an interest rate of 5.75%.	<u>\$ 526,700</u>	<u>\$ (38,909)</u>	<u>\$ 487,791</u>	<u>\$ 41,195</u>
Total Economic Development Corporation	<u>\$ 526,700</u>	<u>\$ (38,909)</u>	<u>\$ 487,791</u>	<u>\$ 41,195</u>
Total Component Unit Activities	<u>\$ 2,914,118</u>	<u>\$ (88,929)</u>	<u>\$2,825,189</u>	<u>\$ 138,593</u>
Total Reporting Entity Activities	<u>\$10,143,341</u>	<u>\$ (202,861)</u>	<u>\$9,940,480</u>	<u>\$ 481,149</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

The debt service requirements to maturity for the city's debt obligations outstanding at June 30, 2004 are as follows:

Annual Debt Service Requirements--Governmental Activities

General Obligation Limited Tax Bonds, Series 2002

Date of Issue: March 1, 2002

Amount: \$1,395,000

Year	Principal 1-May	Interest		Annual Total
		1-May	1-November	
2004			\$ 33,134	\$ 33,134
2005	\$ 25,000	\$ 33,134	32,571	90,705
2006	30,000	32,571	31,896	94,467
2007	35,000	31,896	31,109	98,005
2008	40,000	31,109	30,209	101,318
2009	45,000	30,209	29,196	104,405
2010	50,000	29,196	28,071	107,267
2011	55,000	28,071	26,820	109,891
2012	60,000	26,820	25,455	112,275
2013	65,000	25,455	23,976	114,431
2014	75,000	23,976	22,233	121,209
2015	80,000	22,233	20,333	122,566
2016	90,000	20,333	18,150	128,483
2017	100,000	18,150	15,700	133,850
2018	110,000	15,700	12,978	138,678
2019	120,000	12,978	9,978	142,956
2020	125,000	9,978	6,853	141,831
2021	130,000	6,853	3,570	140,423
2022	140,000	3,570		143,570
Total	<u>\$ 1,375,000</u>	<u>\$402,232</u>	<u>\$ 402,232</u>	<u>\$ 2,179,464</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)2003 Act 175 Michigan Transportation Fund Bonds

Date of Issue: February 1, 2003

Amount: \$250,000

<u>Year</u>	<u>Principal 1-August</u>	<u>Interest</u>		<u>Annual Total</u>
		<u>1-August</u>	<u>1-February</u>	
2004		\$ 4,666	\$ 4,666	\$ 9,332
2005		4,666	4,667	9,333
2006	\$ 10,000	4,667	4,516	19,183
2007	10,000	4,516	4,366	18,882
2008	15,000	4,366	4,141	23,507
2009	15,000	4,141	3,916	23,057
2010	15,000	3,916	3,688	22,604
2011	15,000	3,688	3,436	22,124
2012	15,000	3,436	3,170	21,606
2013	20,000	3,170	2,795	25,965
2014	20,000	2,795	2,410	25,205
2015	20,000	2,410	2,010	24,420
2016	20,000	2,010	1,600	23,610
2017	25,000	1,600	1,075	27,675
2018	25,000	1,075	544	26,619
2019	25,000	544	-	25,544
Total	<u>\$250,000</u>	<u>\$ 51,666</u>	<u>\$ 47,000</u>	<u>\$348,666</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

2003 Tobias/Linn Road Special Assessment

Date of Issue: February 1, 2003

Amount: \$928,436

<u>Year</u>	<u>Principal November</u>	<u>Interest November</u>	<u>Annual Total</u>
2004	\$ 46,422	\$ 41,780	\$ 88,202
2005	46,422	39,459	85,881
2006	46,422	37,137	83,559
2007	46,422	34,816	81,238
2008	46,422	32,495	78,917
2009	46,422	30,174	76,596
2010	46,422	27,853	74,275
2011	46,422	25,532	71,954
2012	46,422	23,211	69,633
2013	46,422	20,890	67,312
2014	46,422	18,569	64,991
2015	46,422	16,248	62,670
2016	46,422	13,927	60,349
2017	46,422	11,606	58,028
2018	46,421	9,284	55,705
2019	46,421	6,963	53,384
2020	46,421	4,642	51,063
2021	<u>46,421</u>	<u>2,321</u>	<u>48,742</u>
Total	<u>\$ 835,592</u>	<u>\$ 396,907</u>	<u>\$ 1,232,499</u>

Vactor Capital Lease Payable

Date of Issue: June 25, 2003

Amount: \$195,050

<u>Year</u>	<u>Principal 28-July</u>	<u>Interest 28-July</u>	<u>Annual Total</u>
2004	\$ 36,134	\$ 5,862	\$ 41,996
2005	37,518	4,478	41,996
2006	38,955	3,041	41,996
2007	<u>40,447</u>	<u>1,549</u>	<u>41,996</u>
Total	<u>\$153,054</u>	<u>\$14,930</u>	<u>\$167,984</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements--Business-Type Funds

The enterprise funds' annual requirements to pay the principal and interest on the city's direct long-term debt obligations outstanding at June 30, 2004 are as follows:

Revenue Bonds Water/Sewer Improvements, Series 1996 (Sewer Fund)

Date of Issue: February 26, 1996

Amount: \$850,000

Year	Principal 1-March	Interest		Annual Total
		1-March	1-September	
2004			\$ 16,906	\$ 16,906
2005	\$ 40,000	\$ 16,906	15,936	72,842
2006	40,000	15,936	14,936	70,872
2007	45,000	14,936	13,789	73,725
2008	45,000	13,789	12,619	71,408
2009	45,000	12,619	11,438	69,057
2010	50,000	11,438	10,100	71,538
2011	50,000	10,100	8,750	68,850
2012	55,000	8,750	7,238	70,988
2013	60,000	7,238	5,558	72,796
2014	60,000	5,558	3,848	69,406
2015	65,000	3,848	1,995	70,843
2016	70,000	1,995		71,995
Total	<u>\$625,000</u>	<u>\$123,113</u>	<u>\$ 123,113</u>	<u>\$871,226</u>

1996 Sewer Special Assessment Bonds (Sewer Fund)

Date of Issue: November 1, 1996

Amount: \$585,000

Unamortized Bond Discount: \$18,719

Current Year Amortized Cost: \$1,560

Year	Principal 1-November	Interest		Annual Total
		1-May	1-November	
2004	\$ 40,000		\$ 8,400	\$ 48,400
2005	40,000	\$ 7,200	7,200	54,400
2006	40,000	6,000	6,000	52,000
2007	40,000	5,000	5,000	50,000
2008	40,000	4,000	4,000	48,000
2009	40,000	3,000	3,000	46,000
2010	40,000	2,000	2,000	44,000
2011	40,000	1,000	1,000	42,000
Total	<u>\$ 320,000</u>	<u>\$28,200</u>	<u>\$ 36,600</u>	<u>\$384,800</u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

General Obligation Unlimited Tax Refunding Bonds, Series 2001

Date of Issue: September 27, 2001

Amount: \$3,700,000

Unamortized Bond Discount at June 30, 2003: \$22,189

Deferred Amount: \$171,832

Current Year Amortized Cost: \$12,934

Year	Principal 1-November	Interest		Annual Total
		1-May	1-November	
2004	\$ 30,000		\$ 78,912	\$ 108,912
2005	30,000	\$ 78,424	78,424	186,848
2006	35,000	77,899	77,899	190,798
2007	215,000	77,287	77,287	369,574
2008	180,000	72,987	72,987	325,974
2009	205,000	69,274	69,274	343,548
2010	235,000	64,918	64,918	364,836
2011	265,000	59,777	59,777	384,554
2012	300,000	54,146	54,146	408,292
2013	335,000	47,696	47,696	430,392
2014	375,000	40,326	40,326	455,652
2015	415,000	31,889	31,889	478,778
2016	460,000	22,448	22,448	504,896
2017	505,000	11,867	11,867	528,734
Total	<u>\$ 3,585,000</u>	<u>\$708,938</u>	<u>\$ 787,850</u>	<u>\$ 5,081,788</u>

Defeased Debt

In prior years, the city defeased the 1991 Series Bonds by placing the proceeds of new bonds (\$3,700,000) in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2004, \$3,400,000 of bonds outstanding are considered defeased.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Victory Meadows Lift Station Installment Purchase Agreement (Sewer Fund)

Date of Issue: July 7, 1999

Amount: \$161,000

<u>Year</u>	<u>Principal 1-June</u>	<u>Interest</u>		<u>Annual Total</u>
		<u>1-June</u>	<u>1-December</u>	
2004			\$ 690	\$ 690
2005	<u>\$30,000</u>	<u>\$ 690</u>		<u>30,690</u>
Total	<u><u>\$30,000</u></u>	<u><u>\$ 690</u></u>	<u><u>\$ 690</u></u>	<u><u>\$31,380</u></u>

Forest of Nottingham Lift Station Installment Purchase Agreement (Sewer Fund)

Date of Issue: July 7, 1999

Amount: \$161,000

<u>Year</u>	<u>Principal 1-June</u>	<u>Interest</u>		<u>Annual Total</u>
		<u>1-June</u>	<u>1-December</u>	
2004			\$ 690	\$ 690
2005	<u>\$ 30,000</u>	<u>\$ 690</u>		<u>30,690</u>
Total	<u><u>\$ 30,000</u></u>	<u><u>\$ 690</u></u>	<u><u>\$ 690</u></u>	<u><u>\$ 31,380</u></u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Wellfield Property Installment Purchase Agreement (Water Fund)

Date of Issue: July 7, 1999

Amount: \$355,000

<u>Year</u>	<u>Principal 1-June</u>	<u>Interest</u>		<u>Annual Total</u>
		<u>1-June</u>	<u>1-December</u>	
2004			\$ 1,495	\$ 1,495
2005	<u>\$65,000</u>	<u>\$1,495</u>		<u>66,495</u>
Total	<u><u>\$65,000</u></u>	<u><u>\$1,495</u></u>	<u><u>\$ 1,495</u></u>	<u><u>\$67,990</u></u>

Annual Debt Service Requirements--Component Units

The annual requirements to pay the principal and interest on the component units direct long-term debt obligations outstanding at June 30, 2004 are as follows:

Downtown Development Authority (DDA)

1994 General Obligation Downtown Development Bond (DDA)

Date of Issue: December 21, 1994

Amount: \$1,895,000

<u>Year</u>	<u>Principal 1-November</u>	<u>Interest</u>		<u>Annual Total</u>
		<u>1-May</u>	<u>1-November</u>	
2004	<u>\$ 40,000</u>		<u>\$ 1,240</u>	<u>\$41,240</u>
Total	<u><u>\$ 40,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,240</u></u>	<u><u>\$41,240</u></u>

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)1999 Downtown Development Refunding Bonds

Date of Issue: May 20, 1999

Amount: \$1,945,000

Year	Principal 1-November	Interest		Annual Total
		1-May	1-November	
2004	\$ 20,000		\$ 43,128	\$ 63,128
2005	65,000	\$ 42,733	42,733	150,466
2006	65,000	41,416	41,416	147,832
2007	70,000	40,084	40,084	150,168
2008	65,000	38,614	38,614	142,228
2009	70,000	37,216	37,216	144,432
2010	75,000	35,711	35,711	146,422
2011	80,000	34,099	34,099	148,198
2012	85,000	32,319	32,319	149,638
2013	90,000	30,428	30,428	150,856
2014	90,000	28,425	28,425	146,850
2015	95,000	26,333	26,333	147,666
2016	105,000	24,124	24,124	153,248
2017	110,000	21,683	21,683	153,366
2018	115,000	19,070	19,070	153,140
2019	120,000	16,339	16,339	152,678
2020	125,000	13,489	13,489	151,978
2021	135,000	10,395	10,395	155,790
2022	140,000	7,054	7,054	154,108
2023	145,000	3,589	3,589	152,178
Total	<u>\$1,865,000</u>	<u>\$503,121</u>	<u>\$ 546,249</u>	<u>\$ 2,914,370</u>

Defeased Debt

In prior years, the DDA defeased 1994 Non-Callable Bonds and 1999 Refunding Bonds by placing the proceeds of new bonds (\$2,155,000) in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$1,655,000 of bonds outstanding are considered defeased.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)2004 Downtown Development Refunding Bonds

Date of Issue: February 18, 2004

Amount: \$405,000

Year	Principal 1-November	Interest		Annual Total
		1-May	1-November	
2004	\$ 10,000		\$ 11,214	\$ 21,214
2005	15,000	\$ 7,878	7,878	30,756
2006	15,000	7,728	7,728	30,456
2007	15,000	7,578	7,578	30,156
2008	20,000	7,410	7,410	34,820
2009	20,000	7,135	7,135	34,270
2010	20,000	6,835	6,835	33,670
2011	20,000	6,510	6,510	33,020
2012	20,000	6,160	6,160	32,320
2013	25,000	5,785	5,785	36,570
2014	20,000	5,285	5,285	30,570
2015	20,000	4,885	4,885	29,770
2016	20,000	4,455	4,455	28,910
2017	20,000	4,025	4,025	28,050
2018	20,000	3,575	3,575	27,150
2019	20,000	3,125	3,125	26,250
2020	20,000	2,625	2,625	25,250
2021	30,000	2,125	2,125	34,250
2022	30,000	1,375	1,375	32,750
2023	25,000	625	625	26,250
Total	<u>\$ 405,000</u>	<u>\$ 95,119</u>	<u>\$ 106,333</u>	<u>\$ 606,452</u>

On February 8, 2004, the city issued \$405,000 in Downtown Development Refunding Bonds, Series 2004 with an average interest rate of 3.755 percent to refund \$365,000 of outstanding 1994 Downtown Development Bonds, Series 1994 with an average interest rate of 6.772 percent. The net proceeds of \$384,429 (after the payment of \$20,751 in underwriting fees and related bond issuance costs), were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 Series bonds. As a result, the 1984 bonds are considered to be defeased and the liability for those bonds have been removed from the component unit column of the statement of net assets. The city refunded the 1994 Series bonds to reduce its total debt service payments over the next 20 years by \$77,914 and resulted in an economic gain of \$51,649.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Land Contract (DDA)--Deer Creek Car Wash Property

Date of Issue: December 15, 1999

Amount: \$115,191

<u>Year</u>	<u>Principal 15-December</u>	<u>Interest 15-December</u>	<u>Annual Total</u>
2004	\$ 27,398	\$ 2,602	\$30,000
Total	<u>\$ 27,398</u>	<u>\$ 2,602</u>	<u>\$30,000</u>

Economic Development Corporation (EDC)

Mortgage Payable--Real Estate

Date of Issue: July 1, 1998

Amount: \$684,000

<u>Year</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Annual Total</u>
2005	\$ 41,195	\$ 27,170	\$ 68,365
2006	43,615	24,750	68,365
2007	46,177	22,188	68,365
2008	48,890	19,475	68,365
2009	51,763	16,602	68,365
2010	54,804	13,561	68,365
2011	58,024	10,341	68,365
2012	61,433	6,932	68,365
2013	65,042	3,323	68,365
2014	<u>16,848</u>	<u>242</u>	<u>17,090</u>
Total	<u>\$487,791</u>	<u>\$144,584</u>	<u>\$632,375</u>

Effective for the fiscal year ended June 30, 2002, the Economic Development Corporation assumed this mortgage from the General Fund.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Debt Covenants

The city's three revenue bonds issued include a covenant to set aside amounts in a bond reserve fund. At June 30, 2004, there was \$6,813, \$13,147 and \$76,828 in separate bank accounts for the bond reserves for the 2004 DDA Refunding Bond, 1994 DDA Water and Sewer Improvement Revenue Bonds and the 1996 Water and Sewer Improvement Revenue Bonds, respectively. These bonds reserves are reported as "Restricted Cash" in the Statement of Net Assets for the respective funds.

No Commitment Debt

Excluded from the long-term debt are revenue bonds issued by the Economic Development Corporation issued to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the city. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the city's financial statements. Information regarding the status of the bond issue, including possible default must be obtained from the paying agent or other knowledgeable source. The amount outstanding at June 30, 2004 is \$600,000.

NOTE J--COMPENSATED ABSENCES

Vested Employee Benefits Payable

The city has an accrued liability for accumulated vested vacation and sick leave benefits payable for its employees. As of June 30, 2004, the accumulated vested vacation and sick leave benefits of the city's employees were as follows:

Vested Employee Benefits Payable--Primary Government

	Sick/Personnel Leave	Vacation Leave	Total
General Government	\$ 14,549	\$24,625	\$39,174
Public Works Department	2,302	3,414	5,716
Total	<u>\$ 16,851</u>	<u>\$28,039</u>	<u>\$44,890</u>

These amounts are reported in the Statement of Net Assets as a non-current liability in the governmental (General Government) and business-type activities (Sewer Enterprise Fund-Public Works Department).

City employees are entitled to certain vacation and sick pay benefits that accrue and vest under the terms of the city's labor agreements and personnel policy.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE J--COMPENSATED ABSENCES (Continued)

Vacation leave is earned in varying amounts ranging from 1 to 5 five weeks depending on the number of years of service provided by the employee and is available on the employee's anniversary date. With supervisory approval, employees may carry over a maximum of one week to the subsequent period.

Sick leave is earned by all city employees at the rate of 12 days annually with each day being made available as of the last day of the month. A maximum of 24 days may be accrued. Upon retirement employees are paid for one-half of their accumulated unused sick leave.

NOTE K--EMPLOYEES' RETIREMENT SYSTEM

PRIMARY GOVERNMENT

Description of Plan and Plan Assets

The City of Williamston is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General employees is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC). The service requirement for Non-Union employees is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of (FAC), with a maximum benefit of 80% of FAC. The service requirement for Police and Non-Union Classified is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

General contribute 4.75%, Police contribute 8.00%, Non-Union employees contribute 7.00% and Non-Union Classified contribute 9.90% of their annual compensation, respectively. The city's pension contributions of covered payroll for the period ending December 31, 2003 were 6.10% for General, 16.80% for Police, 7.09% for Non-Union Employees, 0.00% for Non-Union Classified, respectively.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

If a member leaves the employ of the municipality or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions plus interest (at a rate determined by MERS, currently 1.5%) are refunded with spousal consent, to the member, if living, or to the member's surviving spouse, if any, or to a named beneficiary.

Annual Pension Cost

During the calendar year ended December 31, 2003, the city's contributions totaled \$67,385 and the employee contributions totaled \$50,242; these contributions were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2001, and personnel agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended 12/31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 67,122	100%	\$0
2002	82,389	100%	\$0
2003	67,385	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/2001	\$ 1,777,504	\$ 2,434,877	\$ 657,373	73%	\$ 661,745	99%
12/31/2002	1,898,108	2,680,332	782,224	71%	648,558	121%
12/31/2003	2,016,088	2,921,768	905,680	69%	744,330	122%

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE L--DEFERRED COMPENSATION PLAN

Primary Government

The City of Williamston offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan are held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the city's financial statements.

NOTE M--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS

PRIMARY GOVERNMENT

The city and the city's component units are exposed to various risks of loss related to theft of, damage to, and distribution of assets, error and omissions; and injuries to employees. The city participates in the Michigan Municipal Liability and Property Pool (Pool) for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensations. Settlement amounts have not exceeded insurance coverage for the current or three prior years.

Local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to member financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

The Michigan Municipal Liability and Property Pool program operates as a common risk-sharing management program for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE N--CONTINGENCIES

Component Units

The Downtown Development Authority, Tax Increment Finance Authority 2A, and Tax Increment Finance Authority 2B (component units) are in the process of being audited by the Department of Treasury over the capture of school taxes during the period of 1994 through 2002.

On September 20, 2004, the city was notified that a final determination had been made by the Department of Treasury for the period 1994 through 2002 with the following results, which are subject to concurrence by the city:

Amounts Due To (From) Other Taxing Jurisdictions (Williamston Community Schools, Ingham Intermediate School District, State of Michigan-State Education Tax, and State of Michigan-Industrial Facilities Tax):

Downtown Development Authority	\$ 57,547
Tax Increment Finance Authority 2A	114,979
Tax Increment Finance Authority 2B	(52,473)

NOTE O--PRIOR PERIOD ADJUSTMENT

Primary Government

Major and Local Street Funds

The City of Williamston and Michigan Department of Transportation (MDOT) were involved in a dispute which resulted in the late filing of the city's 2002 Act 51 Report. In conjunction with the dispute, MDOT withheld distribution to the city for the October 2002 through October 2003 Michigan Transportation Fund (MTF) collections totaling \$220,090.27 until December 2003. A restatement of fund balance was necessary to remove the October 2002 through June 2003 MTF revenue that was recognized during the fiscal year ended June 30, 2004 and apply it to the fiscal year ended June 30, 2003 in accordance with the modified accrual basis of accounting.

CITY OF WILLIAMSTON

NOTES TO FINANCIAL STATEMENTS

NOTE O--PRIOR PERIOD ADJUSTMENT (Continued)

Listed below is the effect of the restatements on the fund balances at June 30, 2003:

	Major Street Fund	Local Street Fund
Fund Balance at 07/01/03	\$ 103,073	\$ 68,412
Restatements to Beginning Fund Balance	<u>112,827</u>	<u>36,338</u>
Restated Fund Balance 07/01/03	<u><u>\$ 215,900</u></u>	<u><u>\$ 104,750</u></u>

NOTE P--CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2003, the city implemented several new accounting standards issued by GASB:

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, "Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34. Also implemented was Interpretation No. 6, "Recognition and measurement of Certain Liabilities and Expenditures," as of July 1, 2003.

CITY OF WILLIAMSTON
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2004

EXHIBIT K

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Fund Balance--July 1, 2003	\$ 574,589	\$ 574,589	\$ 574,589	-
Resources (Inflows)				
Property Taxes	1,451,200	1,451,200	1,463,436	\$ 12,236
State Grants	315,700	315,700	329,982	14,282
Licenses and Permits	17,000	17,000	19,026	2,026
Charges for Services	20,400	20,400	19,981	(419)
Fines and Forfeitures	4,200	4,200	5,853	1,653
Interest and Rentals	47,500	47,500	45,699	(1,801)
Other Revenue	25,000	25,000	39,861	14,861
Installment Agreement Proceeds	-	195,000	195,050	50
Transfers From Other Funds	185,850	185,850	195,470	9,620
Sale of Capital Assets			69,327	69,327
Amounts Available for Appropriation	2,641,439	2,836,439	2,958,274	121,835
Charges to Appropriations (Outflows)				
General Government				
City Council	26,175	18,675	15,955	2,720
City Manager	111,000	118,500	113,223	5,277
Clerk	81,350	81,350	75,448	5,902
Treasurer	139,500	137,000	133,015	3,985
Assessor	41,810	44,150	42,688	1,462
Elections	9,000	9,000	4,675	4,325
Buildings and Grounds	155,500	155,500	143,706	11,794
Attorney	75,000	75,000	55,798	19,202
Cemetery Board	12,700	12,700	9,400	3,300
Wheatfield Township 425 Revenue Sharing	10,000	10,000	8,064	1,936
Public Safety				
Police	484,097	495,097	474,475	20,622
Ingham County Hazmat Team	-	-	2,000	(2,000)
Public Works				
Department of Public Works	51,250	70,000	64,853	5,147
Equipment Maintenance	63,500	65,500	60,793	4,707
Sidewalks	21,500	21,500	8,965	12,535
Street Lighting	50,000	40,000	35,849	4,151
City Tree Service	10,350	26,000	21,633	4,367
Leaf and Grass Collection	52,000	42,000	35,923	6,077
Tobias Drain Assessment	98,500	98,500	96,139	2,361
Community and Economic Development				
Planning Commission	36,800	45,000	42,693	2,307
Community and Economic Development Administration	106,700	61,700	48,992	12,708
Recreation and Cultural				
Parks and Recreation	67,200	47,200	41,011	6,189
Library	6,500	6,500	4,599	1,901
Red Cedar Recreation Association	6,000	6,000	4,990	1,010
Capital Outlay				
New Equipment	115,600	308,260	300,958	7,302
Debt Service				
Principal	-	42,000	41,996	4
Interest and Fiscal Fees	-	-	-	-
Transfers to Other Funds	144,500	144,500	144,500	-
Total Charges to Appropriations	1,976,532	2,181,632	2,032,341	149,291
Fund Balance--June 30, 2004	\$ 664,907	\$ 654,807	\$ 925,933	\$ 271,126

**CITY OF WILLIAMSTON
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2004**

EXHIBIT L

	<u>SPECIAL REVENUE FUNDS</u>			<u>DEBT SERVICE FUNDS</u>		
	Major Street	Local Street	Building and Zoning	2003 Act 175 Bond Debt	2003 Act 342 Bond Debt	Total
<u>ASSETS</u>						
Cash	\$ 257,762	\$ 135,162				\$ 392,924
Investments	62,909	18,623				81,532
Accounts Receivable	80					80
Due From State of Michigan	27,802	8,983				36,785
Due From Other Funds (Primary Government)			\$ 21,237	\$ 668	\$ 22,147	44,052
Total Assets	<u>\$ 348,553</u>	<u>\$ 162,768</u>	<u>\$ 21,237</u>	<u>\$ 668</u>	<u>\$ 22,147</u>	<u>\$ 555,373</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Accounts Payable			\$ 6,243			\$ 6,243
Due to Other Funds (Primary Government)	\$ 22,005	\$ 8,883				30,888
Accrued Liabilities	346	41				387
Total Liabilities	<u>22,351</u>	<u>8,924</u>	<u>6,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>37,518</u>
Fund Balances						
Reserved for						
Debt Service				668	22,147	22,815
Unreserved--Undesignated	<u>326,202</u>	<u>153,844</u>	<u>14,994</u>			<u>495,040</u>
Total Fund Balances	<u>326,202</u>	<u>153,844</u>	<u>14,994</u>	<u>668</u>	<u>22,147</u>	<u>517,855</u>
Total Liabilities and Fund Balances	<u>\$ 348,553</u>	<u>\$ 162,768</u>	<u>\$ 21,237</u>	<u>\$ 668</u>	<u>\$ 22,147</u>	<u>\$ 555,373</u>

CITY OF WILLIAMSTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

EXHIBIT M

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS		
	Major Street	Local Street	Building and Zoning	2003 Act 175 Bond Debt	2003 Act 342 Bond Debt	Total
Revenues						
Licenses and Permits			\$ 50,138			\$ 50,138
State Grants	\$ 163,741	\$ 52,859				216,600
Charges for Services			10,299			10,299
Interest and Rentals	1,280	603				1,883
Other	177	326,277				326,454
Total Revenues	165,198	379,739	60,437	\$ -	\$ -	605,374
Expenditures						
Current						
Public Safety			56,843			56,843
Public Works						
Construction	6,919	322,226				329,145
Routine Maintenance	81,667	15,433				97,100
Traffic Services	2,126	1,130				3,256
Winter Maintenance	22,691	18,625				41,316
Administration	1,293	1,363				2,656
Principal					20,000	20,000
Interest and Fees				9,332	67,443	76,775
Total Expenditures	114,696	358,777	56,843	9,332	87,443	627,091
Excess of Revenue Over (Under) Expenditures	50,502	20,962	3,594	(9,332)	(87,443)	(21,717)
Other Financing Sources (Uses)						
Interfund Transfers In (Primary Government)	65,000	70,000		10,000	27,168	172,168
Interfund Transfers In (Component Unit)					60,000	60,000
Interfund Transfers (Out)--Primary Government	(5,200)	(41,868)				(47,068)
Total Other Financing Sources (Uses)	59,800	28,132	-	10,000	87,168	185,100
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	110,302	49,094	3,594	668	(275)	163,383
Fund Balance--July 1, 2003	103,073	68,412	11,400	-	22,422	205,307
Restatements to Fund Balance--July 1, 2003	112,827	36,338	-	-	-	149,165
Restated Fund Balance--July 1, 2003	215,900	104,750	11,400	-	22,422	354,472
Fund Balance--June 30, 2004	\$ 326,202	\$ 153,844	\$ 14,994	\$ 668	\$ 22,147	\$ 517,855



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

October 7, 2004

Honorable Mayor and City Council
City of Williamston
161 East Grand River Avenue
Williamston, Michigan 48895

RE: Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Council Members:

We have audited the financial statements of the City of Williamston as of and for the year ended June 30, 2004, and have issued our report thereon dated October 7, 2004.

The township adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures;" and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of July 1, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the City of Williamston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance, which we have reported to the management of the City of Williamston in the accompanying comments and recommendations section of this report as finding 04-2.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the City of Williamston's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Williamston's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying report on comments and recommendations as finding 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the council members, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

CITY OF WILLIAMSTON

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although the following are not considered material weaknesses in internal control, we wish to point out certain other reportable conditions for consideration by the management of the City of Williamston.

Treasurer--Current Tax Collection Fund

Finding 04-1

Condition: During fiscal year 2002, we found that the city established the necessary "due to" accounts as noted in our finding in the prior year. However, we continue to find that there is no detail supporting the amounts recorded in this fund. Additionally, the amount recorded in the Tax Collection Fund as a "due to" the General Fund did not correspond to the "due from" balance recorded in the General Fund.

Criteria: The Current Tax Collection Fund is used to account for current property tax collections due, not only to the city, but to other governmental units. This fund is an agency fund. Consequently, the fund should only have "cash" and "due to" accounts. Further, MCL 211.43(c) (in addition to other distribution deadlines) requires that "A final adjustment and delivery of the total amount of tax collections on hand for the county, community college districts, intermediate school districts, school districts, and public transportation authorities shall be made not later than April 1 of each year." Therefore, at June 30th, the balance should only reflect amounts due other funds of the city. It is recommended that all funds due the city are also disbursed and that the balance is reduced to zero (or an established imprest balance to meet any minimum balance required by the bank).

Recommendation: We recommend that the city properly account for current tax collections utilizing accounts prescribed by the Uniform Chart of Accounts. Generally, this will be one cash account and multiple "due to..." accounts properly designating the units to which the cash is due. Note, that the Uniform Chart of Accounts prescribes an account for "Undistributed Taxes." However, this account is only a temporary account and should be regularly distributed to the appropriate "due to..." accounts.

Management's Response--Corrective Action Plan: Contact person is Lisa Hitchcock, Williamston City Manager, 161 East Grand River Avenue, Williamston Michigan, 48895. Telephone (517) 655-2774.

The City of Williamston treasurer has been directed to prepare written procedures to address this issue so it does not happen in the future.

CITY OF WILLIAMSTON

COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE

Our review of procedures for compliance with statutory requirements disclosed the following exceptions:

Treasurer--Old Outstanding Checks

Finding 04-2

Condition: We found that the bank reconciliation for the city's common checking account and tax roll account includes outstanding checks of over one year.

Criteria: MCL 567.234 and MCL 238, revised in 1997, includes the following:

“Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned. The holder in possession of property presumed abandoned and subject to the state's custody as unclaimed property shall send written notice to the apparent owner not less than 60 days or more than 365 days before filing the report... Except as otherwise provided in this subsection, the report shall be filed on or before November 1 of each year for the 12-month period ending on the immediately preceding June 30th...”

Recommendation: We recommend that all checks over one year old be investigated. If the payee can be found, the money should be disbursed to that individual. If the payee cannot be found, the money should be distributed to the State of Michigan in accordance with the State statute.

Management's Response--Corrective Action Plan: Contact person is Lisa Hitchcock, Williamston City Manager, 161 East Grand River Avenue, Williamston Michigan, 48895. Telephone (517) 655-2774.

The City of Williamston treasurer has been directed to prepare written procedures to address this issue so it does not happen in the future.